

No Growth in HMO Market Share From 1998 to 1999

The most recent data on health maintenance organization (HMO) enrollment in Maryland shows little change in the proportion of Maryland's insured residents served by HMOs. The implication is that the market share for HMOs in the state, with more than 2 million of 4.5 million insured residents enrolled in HMOs in 1999, may have stabilized at about 45 percent. Rapid and sustained growth in HMO enrollment in Maryland during the first half of the 1990's has given HMOs in Maryland a share of the insured market well above the national average. But between 1998 and 1999, the state's HMO market share, including Medicaid-only HMOs (MCOs), declined by nearly 1 percentage point. This marks the first time during the past decade that the HMO market share in Maryland has not exhibited an increase, with the smallest increase (under 2 percentage points) occurring in 1998.

Maryland's experience serves as a leading indicator for the national trend, likely because the state's HMO market is more mature. From 1998 to 1999 nationwide HMO market share barely increased, and *The InterStudy Competitive Edge: HMO Industry Report* cites a slight drop in total US HMO enrollment from 1999 to 2000. The apparent "saturation" in Maryland's HMO market share results from stable market shares in both the private sector and Medicaid and a reduction of plans participating in Medicare+Choice.

Growth in the Private Sector Has Stalled

Recently, growth in HMO market share in the state's private sector – which constitutes about 4/5 of the state's HMO enrollees – appears to have stalled. The modest decline in private HMO market share in 1999 reduces the proportion of privately insured served by HMOs to just under one-half.

The lack of growth is attributable to several factors, including the blurring of differences between HMOs and traditional insurance products. Perhaps most important may be employer response to rising HMO costs. Nationwide, employers have reported shifting to insurance plans that do not entail the high administrative costs of managed care.² Firms are using incentives to re-direct employees out of point-of-service plans and into preferred provider organizations. Larger firms are also moving from fully-insured products, which include HMOs, to self-insurance.

Private HMOs Withdraw from Public Programs

HealthChoice, Maryland Medicaid's capitated health care program, is assigned to the vast majority of persons fully covered by Medicaid (86 percent in 1999). The program was fully implemented in 1998, and absent expansion of MCO-eligible programs, no further increase in MCO market share was possible in 1999. But the large percentage of Medicaid fully-insured enrollees in HealthChoice, coupled with the declines in HMO market share in the private and Medicare sectors, makes HealthChoice's MCO enrollees comprise 16 percent of the state's total health maintenance organization enrollment in 1999, up from 14 percent in 1998.

However, the role of private sector HMOs in the HealthChoice program has gradually declined. Of the three commercial HMOs that started with the program and covered 2/3 of the

HMO Market Share in Maryland & the United States in Percentages, 1999 (Absolute Change from 1998 to 1999)¹

	Maryland	U.S.
All Insured	45 (-0.8)	35 (+0.4)
Privately Insured	49 (-1.4)	N/A
Medicaid	86 (+0.1)	56 (+0.2)
Medicare	13 (-0.5)	18 (+1.6)

enrollees, only one is participating in 2001. The program is now dependent on provider-based organizations affiliated with major hospital systems such as University, Hopkins, and Medstar (Helix) that have traditionally served Medicaid patients. Participation of private HMOs in HealthChoice had been deemed important because of the belief that Medicaid recipients would receive better care if they were treated in managed care organizations that serve mainly private patients. It is unclear what effect, if any, the departure of private sector HMOs will have on the care received by HealthChoice enrollees.

The proportion of Maryland Medicare beneficiaries enrolled in HMOs in 1999 declined by 4.2 percent (0.5 percentage points) due to a net loss of two HMOs in the Maryland market in 1999. Further declines are expected as more commercial HMOs departed in 2000 and 2001. Consequently, it seems likely that the HMO market share of Medicare beneficiaries in Maryland will continue to lag behind the national average – the only segment of the state's HMO market to do so. In 2001, only Kaiser Permanente, among the large private HMOs, offers a Medicare+Choice product.³

Regional HMO Market Share in Percentages, 1999 (Absolute Change from 1998 to 1999) ¹					
	NCA	Baltimore Metro	Eastern Shore	Southern MD	Western MD
All Insured	46 (-0.1)	47 (-0.6)	47 (-1.5)	34 (-9.0)	41 (+1.6)
Privately Insured	49 (-0.5)	51 (-1.4)	53 (-1.9)	34 (-11.0)	46 (+2.2)
Medicaid	84 (-0.6)	86 (-0.6)	88 (+2.6)	88 (+1.5)	89 (+5.1)
Medicare	12 (-0.3)	17 (+0.9)	8 (-3.1)	8 (-3.1)	4 (-3.9)

Regional HMO Markets: Western MD, Southern MD, and Eastern Shore Show Greatest Change

Most of the state's regions, like Maryland as a whole, experienced nominal declines in the **proportion of all insured residents served by HMOs**. Coincidentally, the overall HMO market share for these regions – National Capital Area (NCA), Baltimore Metro, and the Eastern Shore – is slightly above the state average in 1999. The 1998-1999 changes for regions with below-average overall HMO market shares differed. Western Maryland's overall HMO market share increased slightly as a result of expanded market share in both the private sector and Medicaid. Southern Maryland experienced a substantial drop in HMO market share – only 34 percent of the insured in this region are served by HMOs in 1999 compared to 43 percent in 1998. This decline is due to dramatic changes in the private sector.

The regions with **privately insured HMO market shares** at or above the state average in 1999 each experienced slight drops, as measured in absolute change, in private sector HMO market share. As in 1998, HMOs capture relatively larger proportions of the privately insured markets in the Eastern Shore and Baltimore Metro regions, with NCA mirroring the state proportion.

In 1998 the Southern and Western Maryland regions had similar, below-average HMO market shares among the privately insured, but experienced very different changes in 1999. Western Maryland had an expansion in HMO market share of 2.2 percentage points (5 percent growth), bringing it closer to the state average. This resulted from a shift of 5,500 persons from non-HMO coverage into HMO enrollment, with no change in the total number of privately insured. Western Maryland may not as yet have achieved stabilization because the development of its HMO market occurred later than in the rest of the state. In sharp contrast, HMO market share in Southern Maryland fell by 1/4 from 1998 to only a 34 percent

share of all privately insured residents. This is attributable to two factors. Declines in HMO enrollment in Calvert and Charles counties reported by two private sector HMOs shifted more than 19,000 persons into the non-HMO market. Additionally, the rate of private insurance coverage in the region increased slightly, contributing an additional 8,800 persons to non-HMO coverage, further inflating the non-HMO market gain.

Changes in **HMO market share of Medicaid enrollees** at the regional level result from new enrollees through the Maryland Children's Health Insurance Program (MCHIP). All MCHIP enrollees are assigned to MCOs, while elderly enrollees dually enrolled in Medicare and Medicaid cannot be in MCOs. The MCHIP program expanded both the proportion of the population enrolled in Medicaid and the proportion of Medicaid enrollees in MCOs, mostly in the regions with the highest proportions of elderly, poor residents: Western Maryland and the Eastern Shore.

All regions but one are characterized by declines in **HMO market share for Medicare**. For three regions the contraction in market share from 1998 to 1999 is considerable, with Medicare HMOs losing nearly 1/2 of their market share in Western Maryland, nearly 1/3 on the Eastern Shore, and more than 1/4 in Southern Maryland. These reductions are mainly due to the exodus of the FreeState Health Plan from the Medicare+Choice program in these regions.

Unlike the other regions, the Baltimore Metro region experienced a slight increase in Medicare HMO market share in 1999. As a result of this change and the reduction in HMO market share on the Eastern Shore (which had the highest Medicare HMO market share in 1998), the Baltimore Metro region now ranks first in Medicare HMO market share – the only region above the 1999 state average.

¹ MHCC calculations using: 1) Current Population Survey data for number with insurance; 2) The InterStudy Competitive Edge 9.1 HMO Industry Report; for national enrollment data and their County Surveyor data for Maryland private sector enrollment; 3) HCFA, Medicare Market Penetration – Quarterly State/County/Plan Data Files for Maryland Medicare HMO enrollment; and 4) Maryland Medicaid eligibility data. Maryland estimates count each resident only once by their primary insurer. The Maryland HMO market shares are larger than those reported by MHCC for 1998 due to new data sources that capture residents covered by out-of-state contracts. Maryland residents concurrently enrolled in Medicaid and either Medicare or private insurance are counted only in Medicare or private insurance. Additionally, the denominator for Medicaid is restricted to Medicaid-only enrollees with full Medicaid benefits (e.g., no enrollees with just Pharmacy Assistance or Family Planning eligibility). Regional estimates incorporate information from the Behavioral Risk Factor Surveillance Survey in Maryland to estimate the number with insurance.

² Freudenheim, Milt. "H.M.O. Costs Spur Employers to Shift Plans." *The New York Times*, September 6, 2000.

³ Elder Health HMO of Maryland Inc, a Medicare+Choice only HMO, started service in January 2001. Tricare Senior Prime is available for military retirees.